

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements
December 31, 2005

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Macomb County (the County) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing such principles. All financial statements are for the year ended December 31, 2005, except as follows: the financial statements of the Child Care, Community Services, Friend of the Court, Health Grants, Veterans' Services and certain MSU Extension, Prosecuting Attorney, Senior Citizens and Sheriff Special Revenue Funds, the Community Mental Health Enterprise Fund, and the Road Commission and Public Works Component Units, which are reported as of and for the year ended September 30, 2005.

Financial Reporting Entity - Macomb County was incorporated in 1818 and includes an area of 482 square miles with the county seat located in the city of Mt. Clemens. The County operates under an elected Board of Commissioners (26 members). The Board of Commissioners is a legislative body that is also responsible for the administration of the County. The County provides many services to residents, including law enforcement, administration of justice, community development and enrichment, parks and recreation and human services.

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined by GASB Statement No. 14, "The Financial Reporting Entity", as appointment of a voting majority of the component unit's board, and either (a) the ability of the primary government to impose its will on the component unit, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The accompanying financial statements present the financial position and results of operations of Macomb County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County. In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Units - Blended component units are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

The **Macomb County Criminal Justice Building Authority (MCCJBA)** is governed by a three-member board appointed by the County's Board of Commissioners. Although legally separate from the County, the MCCJBA is reported as if it were part of the primary government because its sole purpose is to finance and construct certain County Buildings.

The **Macomb County Building Authority** is governed by a seven-member board appointed by the County Board of Commissioners. Although legally separate from the County, the Building Authority is presented as a blended component unit because its sole purpose is to finance and construct certain County Buildings.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Blended Component Units (concluded) –

The **Macomb County Employee's Retirement System** (the "System") is governed by a seven-member board. Although it is legally separate from the County, the System is reported as if it were part of the primary government because its sole purpose is to administer the Macomb County Employees' Retirement System.

The **Macomb County Retiree Health Care Board** consists of five members of the Board of Commissioners, the County Treasurer and the County Finance Director. Although legally separate from the County, the Board is reported as if it were part of the County since its sole purpose is to administer the Macomb County Retiree Health Care Plan and Trust.

Discretely Presented Component Units

The **Macomb/St. Clair Workforce Development Board** (Michigan Works!) is governed by a separate board appointed by the County Board of Commissioners. Michigan Works! receives federal funds under the Job Training Partnership Act to operate employment and training programs that lead to unsubsidized employment for unskilled adults and youth. Its activities are included in the County's financial statements as the County is financially responsible for the entity and the exclusion of such activities would be misleading to the County's financial statements. Separate independently audited financial statements of Michigan Works! are not prepared.

The **Macomb County Road Commission** is governed by a separate board appointed by the County Board of Commissioners. The Road Commission constructs, operates and maintains primary and local roads within the County. The Road Commission's activities are included in the County's financial statements as the exclusion of such activities would be misleading to the financial statements. Complete financial statements of the Road Commission can be obtained from the Road Commission administrative offices, 156 Mallow St., P. O. Box 2347, Mt. Clemens, MI, 48046-2347.

The **Drainage Districts** are governed by separate boards composed of the Public Works Commissioner, the Chair of the County Board of Commissioners and Chair of the Finance Committee of the Board of Commissioners. Each Drainage District is a separate legal entity with the power to contract, sue and be sued and hold, dispose of and manage real property. The primary function of the Drainage Districts is to direct the construction and maintenance of drains, sewers and water supply systems within the County. The activities of the Drainage Districts are included in the County's financial statements as the exclusion of these activities would be misleading. Separate independently audited financial statements of the Drainage Districts are not prepared.

The **County of Macomb Hospital Finance Authority** is governed by a five-member board appointed by the Macomb County Board of Commissioners. The Authority was created pursuant to Public Act 38 of 1969 for the purpose of providing hospitals within the County the opportunity to finance capital projects at favorable interest rates. Public Act 38 allows hospitals to finance capital projects through the Authority, which enjoys the County's excellent credit rating. Separate independently audited financial statements of the Hospital Finance Authority are not prepared.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Basic (Government-Wide) and Fund Financial Statements-

The activities of the County are categorized as either governmental or business-type in both the government-wide and fund financial statements. The majority of the County's activities are governmental activities and are supported primarily by property taxes, charges for services and intergovernmental revenues while business-type activities are supported by fees and charges for services.

For the most part, the effect of interfund activity has been eliminated from these statements. However, interfund activity between governmental activities and business-type activities has not been eliminated so as to not distort the direct costs and program revenues of the various functions.

The **basic (government-wide) financial statements** report information on the County as a whole. These statements focus on the sustainability of the County as an entity and the change in aggregate financial position resulting from the activities of the fiscal period and consist of the **Statement of Net Assets** and the **Statement of Activities**.

The **Statement of Net Assets** presents information on all of the assets and liabilities of the County, with the difference between the two reported as *net assets*. Net assets are classified into one of three categories for accounting and financial reporting purposes:

- Invested in capital assets, net of related debt. This category represents the cost of the County's capital assets, net of accumulated depreciation and reduced by any outstanding debt used to acquire those assets.
- Restricted. Assets are considered restricted when constraints are placed on their use by external sources such as creditors and grantors, or imposed by statute.
- Unrestricted. Net assets that do not meet the definition of the two preceding categories are considered unrestricted and can be used for new spending. Designations are often placed on unrestricted net assets to indicate that internal restrictions have been placed upon their use. However, designations differ from restrictions in that they may be subsequently removed or modified by management or the Board of Commissioners.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues are segregated into three categories: charges for services, operating grants and capital grants. Charges for services are those revenues generated from charges to customers or applicants who purchase, use or directly benefit from the goods and services provided by a given function or segment. Operating and capital grants are those restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenues not specifically associated with a particular program are reported as general revenues in the Statement of Activities.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Basic (Government-Wide) and Fund Financial Statements (continued)-

Fund financial statements report information at the individual fund level and are, in substance, very similar to the financial statements presented in the previous financial reporting model. The focus of the fund financial statements is on the major funds of both governmental and business-type activities. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the basic financial statements and are detailed in the supplementary information. Funds are classified as governmental, proprietary or fiduciary. The fiduciary funds are included in the fund financial statements but are excluded from the government-wide financial statements since these assets are being held for the benefit of third parties and are not available to support the activities or obligations of the County.

The County reports the following major governmental funds:

- The *General Fund* is the chief operating fund of the County. It accounts for all financial resources except those required to be accounted for in another fund.
- The *Revenue Sharing Reserve Fund* is required by the State of Michigan and accounts for property tax collections that serve as a substitute for State revenue sharing payments. This funding mechanism involves a gradual shift in the collection of County property taxes from December to July of each year.

The County reports the following major enterprise funds:

- The *Delinquent Tax Revolving Fund* accounts for the County's annual purchase of delinquent real property taxes from each of the local taxing jurisdictions in the County and their subsequent collection. In addition, the operations of the personal property tax collection division of the Treasurer's Office are reported here.
- The *Community Mental Health Fund* accounts for the activities of delivering an array of mental health services to County residents.
- The *Martha T. Berry Medical Care Facility* accounts for the activities of delivering long-term nursing care to County residents.
- The *Freedom Hill Park* fund accounts for the operations of the Freedom Hill County Park.

Financial information regarding the County's Internal Service Funds is presented in summary form as part of the proprietary fund financial statements. Since the principal users of the services of these funds are the County's governmental activities, the financial statements of the internal service funds are consolidated into the governmental activities in the entity-wide financial statements. Surpluses or deficits of the internal service funds are allocated back to the governmental activities within the government-wide financial statements.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Basis of Presentation - Fund Accounting (concluded) - The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The funds of the County are classified into three broad categories: governmental, proprietary and fiduciary.

Governmental Funds

General Fund - The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in other funds.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specific purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, principal, interest and related costs of general long-term debt not being accounted for in proprietary funds.

Capital Projects Funds - Capital projects funds are used to account for the acquisition, construction or renovation of major capital facilities other than those accounted for in proprietary funds.

Proprietary Funds

Internal Service Funds - Internal services funds are used to account for goods and services provided to other departments and governmental agencies on a cost-reimbursement basis. The County utilizes separate internal service funds to account for compensated absences, workers' compensation insurance, liability insurance and central services such as inventory and telephone.

Enterprise Funds - Enterprise funds are used to account for the activities of the County's business-type activities. The operations of these funds are financed primarily through user fees and are intended to recover the cost of services provided.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services in connection with the principal ongoing operations of any particular proprietary fund. Operating expenses for proprietary funds include cost of sales and services, administrative expenses and depreciation of capital assets. Revenue not meeting this definition are reported as non-operating revenues and expenses.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Fiduciary Funds

Employees' Retirement Fund – The Employees' Retirement Fund is used to account for the accumulation of resources for pension benefit payments to qualified employees.

Retiree Health Care Trust Fund – The Retiree Health Care Trust Fund is used to account for the accumulation of resources to provide health care benefits to County retirees.

Agency Funds – Trust and agency funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The County reports the following agency funds: general agency for items such as court fees collected and passed through to the State of Michigan, payroll and benefits for employee withholdings such as garnishments and union dues and miscellaneous agency, which is used to account for monies such as library penal fines.

Measurement Focus and Basis of Accounting – Basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements.

The government-wide financial statements as well as the financial statements of the proprietary funds and pension trust funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred without regard to the receipt or payment of cash or its equivalent.

The governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues of governmental funds are recognized when they become both measurable and available. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of year-end.

Federal grants, state distributions and grants, property taxes and interest earned are accrued since they are both measurable and available. Special assessments are recognized as revenues only to the extent that individual installments are due within one year. Licenses and permits, fines and forfeitures and other revenues are recorded when received in cash because they are generally not measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, with the exception of principal and interest on general long-term debt, which is recognized when due. The majority of the funds of the County are accounted for using the modified accrual basis of accounting. Because the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is provided after each governmental fund financial statement that briefly explains the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Inventories - Inventories are valued at cost. Cost is determined by the first-in, first-out method. Inventories in the General Fund and the Road Commission (component unit) consist of expendable items held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Inventories reported in the General Fund are equally offset by a fund balance reserve that indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Under current governmental accounting principles, establishing a reserve for inventories determined on the consumption basis is optional. As a matter of policy, the Road Commission has elected not to establish a fund balance reserve for its inventories.

Surplus Property - Surplus property is recorded at the lower of cost or market and represents currently available expendable resources.

Other Assets - Other assets represent deposits and prepaid expenses.

Budgetary Accounting - In establishing the budgetary data reflected in the financial statements, the County follows these procedures:

- Prior to October 1, the County Finance Director submits to the Board of Commissioners a proposed operating budget for the year commencing January 1. The annual operating budget includes proposed expenditures and the means of financing them for the General Fund, Friend of the Court, Health, County Library, Medical Care Facility, Parks, Social Services, Community Services Agency, Senior Citizens Services and Child Care Special Revenue Funds. For those Special Revenue Funds and component units without annual operating budgets (MSU Extension Grants, Sheriff Grants, Urban County Block Grant, Prosecuting Attorney Grants, Health Grants, Other Special Revenue Funds and Michigan Works!), legal authorization for spending is obtained through approval of the Board of Commissioners or other appropriate authoritative body. Similarly, legal authorization for the spending of Debt Service Funds and Capital Projects Funds is provided by Board of Commissioners' approval of bond ordinances, grant agreements, construction contracts and special assessment rolls.
- A public hearing is conducted to obtain taxpayer comments and prior to December 31, the budget is legally enacted through passage of a resolution by the Board of Commissioners.

Formal budgetary integration is employed as a management control device during the year for all funds. Expenditures may not legally exceed budgeted appropriations at the function and object level within an individual department. Management cannot amend the enacted budget without the consent of the Finance Committee of the Board of Commissioners. The Finance Committee is authorized to transfer budgeted amounts within the legal levels of budgetary control. Any revisions that alter the total expenditures of any legal level of budgetary control must be approved by the Board of Commissioners. During the year, supplemental budgetary appropriations were not significant in relation to the original appropriations as adopted. Unexpended appropriations lapse at year-end. Encumbrances open at year-end are reappropriated in the following year. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts, as presented in the financial statements, represent final budget authorization, including all amendments approved during the year.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets – Capital assets of the primary government, including land, land improvements, buildings, equipment and vehicles, are reported in the government-wide financial statements and the applicable proprietary fund financial statements. Capital assets utilized for governmental activities are only capitalized in the government-wide financial statements and are fully expended in the governmental funds. Capital assets of the component units, including infrastructure assets such as roads, bridges and drains, are reported in the Public Works and Road Commission Component Units. The County capitalizes assets whose initial purchase price equals or exceeds \$5,000 and whose estimated useful life exceeds one year. The Road Commission capitalizes assets whose initial cost equals or exceeds \$1,000 and estimated useful life exceeds one year. Capital assets are valued at historical cost or estimated historical cost. Donated properties are recorded at fair market value at the date of donation.

Depreciation of all exhaustible capital assets is allocated against the various functions in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation has been provided over the following estimated useful lives using the straight-line method: land improvements - 10-20 years, buildings and improvements – 25-50 years, equipment - 3-20 years, vehicles - 5 years and infrastructure 8-50 years.

Compensated Absences – County employees earn vacation and sick leave benefits based on length of service. Both fully vest upon completion of a probationary period of six months. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement or termination). Certain limitations have been placed on the number of hours of vacation and sick leave that may be accumulated and carried over for payment at separation of service. Unused hours exceeding these limitations are forfeited. Accumulated unpaid vacation, sick pay and other employee benefit liabilities have been accrued in the Compensated Absences Internal Service Fund.

Encumbrances – Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Encumbrances outstanding at year-end are reported as reserves of fund balances since they do not constitute expenditures or liabilities. In addition, the encumbrances outstanding at year-end are re-appropriated and spent under authorization of a new budget.

Property Taxes – The County property tax is levied each December 1 based on the taxable value of property as of the preceding December 31. Taxes are billed and collected for the County by the local units within the County and are payable in one installment no later than February 28 of the following year, at which time they become delinquent and subject to penalty. Taxable value is established annually by the local units, accepted by the County and equalized by the State of Michigan to approximate 50% of market value (SEV). The annual increase in taxable value is limited by State statute to the rate of inflation or 5%, whichever is less. Taxable value reverts to SEV when a property is sold or when SEV drops below taxable value. The taxable value of real and personal property in Macomb County for the December 1, 2004 levy (calendar 2005 revenue) was \$26,980,530,368. The County operating tax rate for the 2004 levy was 4.20 mills.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (concluded)

Property Taxes (concluded) – The State eliminated State Revenue Sharing in 2004 and enacted Public Act 357 to provide for a gradual shift in County tax levies from December to July to serve as a substitute funding mechanism for State Revenue Sharing. The gradual shift takes place over a three year period as follows: in 2005, one-third of the taxes were levied on July 1, and two-thirds on December 1; in 2006, two-thirds of the taxes will be levied on July 1 and one third on December 1 and the 100% of the taxes will be levied on July 1 beginning in 2007 and each year thereafter.

The County, through its Delinquent Tax Revolving Fund, purchases annually from the municipalities within the County, at face value, the delinquent real property taxes receivable, as certified to the County as not collected as of March 1. The Delinquent Tax Revolving Fund is self-supporting at this time. Collection of these delinquent property taxes will be used to purchase future delinquent real property taxes from municipalities within the County.

Use of Estimates – The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

Application of FASB Pronouncements – The County and its component units apply all applicable pronouncements of the Financial Accounting Standards Board (FASB) in accounting for their proprietary operations (excluding internal service funds), unless those pronouncements conflict with guidance issued by the Governmental Accounting Standards Board after November 30, 1989, as prescribed by GASB Statement No. 20.

Note 2 - Deposits and Investments

Primary Government Deposits and Investments - The County maintains a cash and investment pool that is available for use by all funds, except the Pension Trust Fund and the Retiree Health Care Trust Fund. In addition to their participation in the pool, certain funds also maintain separate investment accounts, consisting primarily of certificates of deposit and money market accounts. Each fund's portion of the pool as well as any amounts in separate accounts are reported as "Cash and Pooled Investments". The Board of Commissioners adopts a depository resolution, including a list of authorized institutions, each year as recommended by the County Treasurer. The provisions of the depository resolution are as follows:

- Certificates of deposit must be with institutions with locations in the State of Michigan, shall not exceed 75% of the portfolio and the amount with any one institution may not exceed 25% of the total portfolio.
- Commercial paper must be rated A-1 by Standard & Poors and P-1 by Moodys and may not exceed 75% of the total portfolio.
- Banker's acceptances with any one institution may not exceed 20% of the total portfolio.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 2 – Deposits and Investments (continued)

Primary Government Deposits and Investments (continued) –

- Government investment pools may not exceed 50% of the total portfolio.
- The total of deposits and investments with any one institution may not exceed 50% of the capitalization of that institution.

The deposits and investments of the primary government at December 31, 2005 are presented below.

	Amount	Percent of Total	Ratings		Avg Days to Maturity
			S&P	Moody's	
Cash on hand	\$ 55,963	0.02%	Not Rated	Not Rated	N/A
Bank and money market accounts	18,358,594	7.84%	Not Rated	Not Rated	N/A
Certificates of deposit	176,775,290	75.47%	Not Rated	Not Rated	113
Subtotal - deposits	<u>195,189,847</u>				
Commercial paper					
General Electric	30,851,199	13.17%	A-1	P-1	175
Citigroup Financial	1,275,524	0.54%	A-1	P-1	149
US Obligations					
Fannie Mae	1,067,275	0.46%	AAA	AAA	26
US Treasury securities	470,340	0.20%	AAA	AAA	0-12
US Treasury securities	3,325,425	1.42%	AAA	AAA	13-60
US Treasury securities	2,043,492	0.88%	AAA	AAA	61-120
	234,223,102	100.00%			
Timing effect of different year-ends	<u>3,476,472</u>				
Amount reported at December 31, 2005	<u>\$ 237,699,574</u>				
Amount reported in primary government	\$ 206,637,587				
Amount reported in agency funds	<u>31,061,987</u>				
	<u>\$ 237,699,574</u>				

Deposits - The deposits of the primary government are subject to *custodial credit risk*, which is the risk that the deposits may not be returned in the event of a bank failure. The custodial credit risk assumed by the County is measured by categorizing deposits in one of three categories: 1) insured or collateralized with securities held by the County or its agent in the County's name, 2) collateralized with securities held by the counterparty's trust department or agent in the County's name and 3) uninsured and uncollateralized.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 2 – Deposits and Investments (continued)

Primary Government Deposits and Investments (continued) –

At year-end, the book value of the deposits of the primary government was \$195,189,847, with corresponding bank balances of \$207,907,725. Qualifying deposits are insured by the FDIC up to \$100,000. Of the bank balances of the primary government, \$800,000 was insured and the remaining \$207,107,725 was uninsured and uncollateralized. The County believes that it is impractical to insure all deposits given the size of the portfolio and the limits of insurance established by the FDIC. As a result, the County evaluates each institution with which it deposits funds and assesses the level of risk associated with each institution and adjusts its deposits accordingly.

Investments - Investments of the primary government are subject to various types of risks as defined below in accordance with GASB Statement No. 40:

- **Credit Risk** is a measure of the creditworthiness of the issuers of the instruments being held and represents the risk that the issuer or other countyparty to an investment will not fulfill its obligations. Statutes of the State of Michigan authorize the County to invest in the following instruments: obligations of the U.S. Treasury and its agencies and instrumentalities, commercial paper rated within the two highest classifications established by not less than two standard rating services, bankers' acceptances, investment pools of the Treasurer of the State of Michigan, and repurchase agreements. At year-end, all of the commercial paper held by the County was rated A-1 by Standard & Poors and P-1 by Moody's Investor Service. In addition, the entire portfolio of investments issued by the United States Treasury or agencies of the United States were rated AAA by Standard & Poors and Aaa by Moody's.
- **Concentration of Credit Risk** is the risk of loss measured by the magnitude of the County's investment in a single issuer. As defined by GASB Statement NO. 40, the County is exposed to concentration of credit risk if more that 5% of its portfolio is invested in instruments issued by a single issuer. At year-end, the County held \$30,851,199 of commercial paper issued by General Electric, which represented 13.17% of the portfolio. No other investments exceeded the 5% threshold.
- **Interest Rate Risk** is the risk that the fair value of the County's investments will be adversely affected by changes in market interest rates and is measured primarily by average days to maturity. Although the County investment policy does not limit investment maturities as a means of limiting its exposure to interest rate risk, the County manages this risk by purchasing a mix of short and longer term investments. Information regarding the County's exposure to interest rate risk is presented below:

Maturities (Years)	Fair Value				Percent of
	US Treasury	US Agency	Corporate	Total	Total
Less than 1	\$ 470,340	\$ 1,067,275	\$ 32,126,723	\$ 33,664,338	86.25%
1-5	3,325,425	-	-	3,325,425	8.52%
6-10	2,043,492	-	-	2,043,492	5.23%
	<u>\$ 5,839,257</u>	<u>\$ 1,067,275</u>	<u>\$ 32,126,723</u>	<u>\$ 39,033,255</u>	<u>100.00%</u>

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 2 - Deposits and Investments (continued)

Component Unit Deposits and Investments –

Deposits - The deposits of the component units are subject to same **custodial credit risk** described previously in relation to the deposits of the primary government. The component units do not participate in the investment pool of the primary government and their portfolios consist entirely of bank accounts and certificates of deposit. The book value of the deposits of the component units was \$77,654,727 at year-end, with corresponding bank balances of \$80,074,793. Of the bank balance, \$900,000 was insured and the remaining \$79,174,793 was uninsured and uncollateralized.

Retiree Health Care Trust Fund Investments – The investments of the Retiree Health Care Trust Fund (the "Fund") are held in a bank-administered trust fund. A summary of the investments of the Fund at December 31, 2005 are presented below:

<u>Investment Type</u>	<u>Amount</u>	<u>Percent of Total</u>
Equity Mutual Funds	\$ 46,207,287	50.04%
Common Stock	13,548,618	14.67%
Foreign Stock	14,094,844	15.26%
Bond Mutual Funds		
US Treasuries	4,695,378	5.77%
US Agencies	8,466,469	5.09%
Corporate	5,323,893	9.17%
	<u>\$ 92,336,489</u>	<u>100.00%</u>

- **Credit Risk** is a measure of the creditworthiness of the issuers of the instruments being held and represents the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Statutes of the State of Michigan authorize the component units to invest in the following instruments: obligations of the U.S. Treasury and its agencies and instrumentalities, commercial paper rated within the two highest classifications established by not less than two standard rating services, bankers' acceptances, investment pools of the Treasurer of the State of Michigan, repurchase agreements and corporate bonds rated in the top four major grades as determined by at least two national ratings agencies. At December 31, 2005, the Fund's investments in debt securities were rated by Standard & Poors as follows:

<u>Quality Rating</u>	<u>US Treasury</u>	<u>US Agency</u>	<u>Corporate</u>	<u>Total</u>	<u>Percent of Total</u>
AAA	\$ 4,695,378	\$ 8,466,469	\$ 1,386,430	\$ 14,548,277	78.70%
AA	-	-	924,287	924,287	5.00%
A	-	-	1,663,717	1,663,717	9.00%
BAA	-	-	1,349,459	1,349,459	7.30%
	<u>\$ 4,695,378</u>	<u>\$ 8,466,469</u>	<u>\$ 5,323,893</u>	<u>\$ 18,485,740</u>	<u>100.00%</u>

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 2 - Deposits and Investments (continued)

Retiree Health Care Trust Fund Investments (concluded) –

- **Concentration of Credit Risk** is the risk of loss measured by the magnitude of investments in a single issuer. As defined by GASB Statement NO. 40, the County is exposed to concentration of credit risk if more than 5% of its portfolio is invested in instruments issued by a single issuer. Investments in instruments issued by the US Government, as well as those held in mutual funds and investment pools are exempt from this requirement. None of the investments in common or foreign stock exceeded the 5% threshold at December 31, 2005.

- **Interest Rate Risk** is the risk that the fair value of investments in debt securities will be adversely affected by changes in market interest rates and is measured primarily by average days to maturity. The entire portfolio of debt securities of the Retiree Health Care Trust Fund is held in one bond index mutual fund that consists of a mix of corporate, US Treasury and US Agency securities. Therefore, the information regarding the Fund's exposure to interest rate risk is presented for the mutual fund as a whole:

Maturities (Years)	Fair Value				Percent of
	US Treasury	US Agency	Corporate	Total	Total
1-5	\$ 2,084,748	\$ 3,759,112	\$ 2,363,809	\$ 8,207,669	44.40%
6-10	1,972,059	3,555,917	2,236,035	7,764,011	42.00%
11 or more	638,571	1,151,440	724,049	2,514,060	13.60%
	<u>\$ 4,695,378</u>	<u>\$ 8,466,469</u>	<u>\$ 5,323,893</u>	<u>\$ 18,485,740</u>	<u>100.00%</u>

Employees' Retirement System Deposits and Investments - A summary of the investments of the System at December 31, 2005 is presented below:

Investment Type	Amount	Percent of Total
Cash and pooled investments	\$ 28,167,056	3.77%
Preferred stock	36,863,843	4.94%
Common stock	301,836,417	40.45%
Foreign stock	107,979,950	14.47%
Limited partnerships	18,124,324	2.43%
US Treasury obligations	16,009,709	2.15%
US Agencies	4,654,776	0.62%
Corporate bonds	45,948,746	6.16%
Mutual funds	186,584,214	25.01%
	<u>\$ 746,169,035</u>	<u>100.00%</u>

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 2 - Deposits and Investments (continued)

Employees' Retirement System Deposits and Investments (continued)

Deposits - The deposits of the Macomb County Employee's Retirement System (the "System") are subject to **custodial credit risk**, which is the risk that the deposits may not be returned in the event of a bank failure. The custodial credit risk assumed by the System is measured by categorizing deposits as previously described. At year-end, the book value of the deposits of the System was \$28,167,056, with corresponding bank balances of \$28,310,813. Qualifying deposits are insured by the FDIC up to \$100,000. Of the bank balances of the System, \$200,000 was insured and the remaining \$28,110,813 was uninsured and uncollateralized.

Investments - The investments of the System are subject to various types of risks as defined below in accordance with GASB Statement No. 40:

- **Credit Risk** is a measure of the creditworthiness of the issuers of the instruments being held and represents the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Statutes of the State of Michigan authorize the System to invest in the following instruments: obligations of the U.S. Treasury and its agencies and instrumentalities, commercial paper rated within the two highest classifications established by not less than two standard rating services, bankers' acceptances, investment pools of the Treasurer of the State of Michigan, repurchase agreements, corporate stocks and corporate bonds rated in the top four major grades as determined by at least two national ratings agencies. Corporate stock cannot exceed sixty five percent (65%) of the total portfolio. The System also participates in securities lending transactions (see Note 7). At December 31, 2005, the System's investments in debt securities were rated by Standard & Poors as follows:

Quality Rating	US Treasury	US Agency	Corporate	Total	Percent of Total
AAA	\$ 16,009,709	\$ 4,654,776	\$ 8,002,517	\$ 28,667,002	43.03%
AA	-	-	7,499,302	7,499,302	11.26%
A	-	-	10,457,634	10,457,634	15.70%
BAA	-	-	17,572,228	17,572,228	26.38%
B or lower	-	-	2,417,065	2,417,065	3.63%
	<u>\$ 16,009,709</u>	<u>\$ 4,654,776</u>	<u>\$ 45,948,746</u>	<u>\$ 66,613,231</u>	<u>100.00%</u>

- **Interest Rate Risk** is the risk that the fair value of investments in debt securities will be adversely affected by changes in market interest rates and is measured primarily by average days to maturity. A summary of the maturities of the System's debt securities at December 31, 2005 were as follows:

Maturities (Years)	Fair Value				Percent of Total
	US Treasury	US Agency	Corporate	Total	Total
1-5	\$ -	\$ 4,654,776	\$ 41,879,381	\$ 46,534,157	69.86%
6-10	16,009,709	-	4,069,365	20,079,074	30.14%
	<u>\$ 16,009,709</u>	<u>\$ 4,654,776</u>	<u>\$ 45,948,746</u>	<u>\$ 66,613,231</u>	<u>100.00%</u>

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 3 – Capital Assets

The following is a summary of capital asset activity of the governmental activities of the County for the year ended December 31, 2005:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 9,233,484	\$ 3,310,168	\$ -	\$ 12,543,652
Construction in progress	13,475,219	23,765,623	22,598,468	14,642,374
Total capital assets not being depreciated	22,708,703	27,075,791	22,598,468	27,186,026
Capital assets being depreciated				
Land improvements	4,984,358	2,079,142	-	7,063,500
Buildings	167,654,084	7,491,341	-	175,145,425
Machinery, equipment and vehicles	43,828,397	4,709,303	976,300	47,561,400
Total capital assets being depreciated	216,466,839	14,279,786	976,300	229,770,325
Less accumulated depreciation for				
Land improvements	2,222,652	214,713	-	2,437,365
Buildings	51,627,318	4,934,719	-	56,562,037
Machinery, equipment and vehicles	27,789,010	4,524,146	817,862	31,495,294
Total accumulated depreciation	81,638,980	9,673,578	817,862	90,494,696
Total capital assets being depreciated, net	134,827,859	4,606,208	158,438	139,275,629
Governmental activities capital assets, net	<u>\$ 157,536,562</u>	<u>\$ 31,681,999</u>	<u>\$ 22,756,906</u>	<u>\$ 166,461,655</u>

The primary government does not report any infrastructure assets as of December 31, 2005.

Depreciation expense was charged to the functions of the governmental activities as follows:

	Governmental Assets	Internal Service Assets	Total
Governmental activities:			
Judicial	\$ 2,096,862	\$ -	\$ 2,096,862
General government	2,642,770	459,172	3,101,942
Health and welfare	2,167,598	-	2,167,598
Recreation and culture	72,005	-	72,005
Public safety	2,235,172	-	2,235,172
	<u>\$ 9,214,407</u>	<u>\$ 459,172</u>	<u>\$ 9,673,579</u>

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 3 – Capital Assets (continued)

The following is a summary of capital asset activity of the business-type activities of the County for the year ended December 31, 2005:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 93,259	\$ 3,556,554	\$ 93,259	\$ 3,556,554
Total capital assets not being depreciated	93,259	3,556,554	93,259	3,556,554
Capital assets being depreciated				
Land improvements	337,934	117,120	-	455,054
Buildings	6,347,736	821,512	-	7,169,248
Machinery, equipment and vehicles	2,863,703	68,688	60,265	2,872,126
Total capital assets being depreciated	9,549,373	1,007,320	60,265	10,496,428
Less accumulated depreciation for				
Land improvements	229,526	13,291	-	242,817
Buildings	4,406,350	178,194	-	4,584,544
Machinery, equipment and vehicles	2,450,258	90,976	60,265	2,480,969
Total accumulated depreciation	7,086,134	282,461	60,265	7,308,330
Total capital assets being depreciated, net	2,463,239	724,859	-	3,188,098
Business-type activities capital assets, net	\$ 2,556,498	\$ 4,281,413	\$ 93,259	\$ 6,744,652

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 3 – Capital Assets (continued)

The following is a summary of changes in the Public Works Component Unit capital assets for the year ended September 30, 2005:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,992,428	\$ -	\$ -	\$ 1,992,428
Construction in progress	2,631,869	1,429,811	1,212,851	2,848,829
Total capital assets not being depreciated	4,624,297	1,429,811	1,212,851	4,841,257
Capital assets being depreciated				
Infrastructure	218,222,896	2,879,805	-	221,102,701
Less accumulated depreciation for				
Infrastructure	54,211,800	4,393,255	-	58,605,055
Total capital assets being depreciated, net	164,011,096	(1,513,450)	-	162,497,646
Governmental activities capital assets, net	\$ 168,635,393	\$ (83,639)	\$ 1,212,851	\$ 167,338,903

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 3 – Capital Assets (concluded)

The following is a summary of changes in the Road Commission Component Unit capital assets for the year ended September 30, 2005:

	Balance Beginning	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 167,942,410	\$ 4,624,657	\$ -	\$ 172,567,067
Total capital assets not being depreciated	167,942,410	4,624,657	-	172,567,067
Capital assets being depreciated				
Land improvements	1,317,456	-	-	1,317,456
Buildings	24,222,550	858,601	-	25,081,151
Machinery, equipment and vehicles	25,001,411	2,297,816	1,373,523	25,925,704
Infrastructure	745,714,960	51,084,503	-	796,799,463
Total capital assets being depreciated	796,256,377	54,240,920	1,373,523	849,123,774
Less accumulated depreciation for				
Land improvements	616,297	66,005	-	682,302
Buildings	4,575,329	504,408	-	5,079,737
Machinery, equipment and vehicles	18,870,456	2,470,089	1,373,145	19,967,400
Infrastructure	262,249,222	30,519,355	-	292,768,577
Total accumulated depreciation	286,311,304	33,559,857	1,373,145	318,498,016
Total capital assets being depreciated, net	509,945,073	20,681,063	378	530,625,758
Governmental activities capital assets, net	\$ 677,887,483	\$ 25,305,720	\$ 378	\$ 703,192,825

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 4 – Long-Term Debt

The following is a summary of the long-term liability transactions for the year ended December 31, 2005:

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental activities					
Criminal Justice Bldg Authority					
Series 1989 Jail Renovation	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ -
Series 1996 Refunding	985,000	-	315,000	670,000	330,000
Series 2002-B Refunding	5,525,000	-	280,000	5,245,000	275,000
Building Authority					
Series 1996-A Warren Satellite	625,000	-	175,000	450,000	225,000
Series 1999 Verkuilen Bldg	675,000	-	125,000	550,000	130,000
Series 2000 Clemens Center	3,475,000	-	2,825,000	650,000	150,000
Series 2002 MTB/Youth Home	29,600,000	-	1,100,000	28,500,000	1,150,000
Series 2002-A Refunding	8,215,000	-	610,000	7,605,000	635,000
Series 2004 Warehouse	5,100,000	-	175,000	4,925,000	175,000
Series 2004-A Public Works Bldg	4,250,000	-	150,000	4,100,000	150,000
Series 2005 Clemens Refunding	-	2,875,000	-	2,875,000	30,000
Series 2005 Commun System/Dist Court	-	19,380,000	-	19,380,000	725,000
MI Transportation Fund					
Series 2000-A Bridge Bonds	4,000,000	-	280,000	3,720,000	295,000
Series 2004-B Bridge Bonds	10,000,000	-	200,000	9,800,000	200,000
	72,750,000	22,255,000	6,235,000	88,770,000	4,470,000
Other liabilities					
Compensated Absences	6,899,733	826,954	1,122,192	6,604,495	1,000,000
General liability claims	3,616,798	-	932,908	2,683,890	850,000
Workers' compensation claims	1,998,875	479,807	688,536	1,790,146	800,000
	85,265,406	23,561,761	8,978,636	99,848,531	7,120,000
Component Units					
Drain Commissioner					
Special Assessment Debt	96,565,604	119,396	13,530,000	83,155,000	4,775,000
Road Commission					
Compensated Absences	1,249,609	188,675	-	1,438,284	-
General liability claims	1,746,534	-	125,996	1,620,538	16,765
Workers' compensation claims	346,775	292,968	251,440	388,303	106,690
Total Road Commission	3,342,918	481,643	377,436	3,447,125	123,455
Grand Totals	\$ 185,173,928	\$ 24,162,800	\$ 22,886,072	\$ 186,450,656	\$ 12,018,455

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 4 – Long-Term Debt (continued)

Long-term bonded debt of the Primary Government and Component Units consists of the following:

Issue	Interest Rate	Date of Issue	Maturing Through	Original Issue Amount	Balance End of Year
Primary Government					
Governmental activities					
Criminal Justice Building Authority					
Series 1989 Jail Renovation	4.00-8.50%	9/1/1989	5/1/2008	3,800,000	300,000
Series 1996 Refunding	4.00-5.80	2/1/1996	5/1/2007	3,190,000	670,000
Series 2002-B Refunding	2.00-4.00	1/1/2003	7/1/2013	5,830,000	5,245,000
Macomb County Building Authority					
Series 1996-A Warren Satellite Renovation	3.80-4.80	5/1/1997	5/1/2007	1,700,000	450,000
Series 1999 Verkuilen Bldg Renovation	4.00-4.90	11/1/1999	5/1/2009	1,205,000	550,000
Series 2000 Clemens Center	4.70-5.70	8/1/2000	5/1/2020	4,000,000	650,000
Series 2002 MTB/Youth Home Renovation	3.50-5.00	5/1/2002	5/1/2022	32,000,000	28,500,000
Series 2002-A Refunding	2.50-4.00	12/1/2002	5/1/2015	8,885,000	7,605,000
Series 2004 Warehouse	2.00-5.00	5/1/2004	5/1/2024	5,100,000	4,925,000
Series 2004-A Public Works Bldg	3.00-4.50	11/1/2004	5/1/2024	4,250,000	4,100,000
Series 2005 Clemens Refunding	3.25-5.00	12/1/2005	5/1/2020	2,875,000	2,875,000
Series 2005 Commun System/Dist Court	3.75-4.50	12/1/2005	11/1/2025	19,380,000	19,380,000
Michigan Transportation Bonds					
Series 2000-A Bridge Bonds	5.375-5.625	6/1/2000	12/1/2015	5,000,000	3,720,000
Series 2004-B Bridge Bonds	3.00-4.75	5/1/2004	12/1/2024	10,000,000	9,800,000
Total Primary Government				107,215,000	88,770,000
Public Works Component Unit					
Special Assessment Debt					
Busch Drain	3.80- 4.55	10/1/1998	5/1/2014	1,250,000	900,000
Green Enclosure	2.80 - 5.70	7/1/1992	5/1/2007	1,065,000	200,000
Hawken Drain	4.30 - 5.25	8/1/2000	5/1/2015	795,000	550,000
Hayes Drain	4.50 - 5.20	8/1/2000	5/1/2015	1,095,000	925,000
Plumbrook Bridge Replacement	4.00 - 5.00	8/1/2000	5/1/2015	2,800,000	2,200,000
17 Mile Road Drain & Branches	4.00 - 8.00	4/1/1973	5/1/2013	3,550,000	2,115,000
17 Mile Road Extension	3.00 - 4.50	11/01/2001	11/01/2016	1,725,000	1,425,000
Sterling Relief Lateral 12B Extension	2.00 - 4.00	09/01/2003	11/01/2012	885,000	745,000
Warren Sanitary Refunding	4.40 - 4.45	12/1/1997	1/1/2007	4,750,000	880,000
Armada Village MCSSS	2.00	1/23/1992	10/1/2011	1,170,000	410,000
Chesterfield New Haven, Lenox Section	5.00 - 10.00	5/1/1998	10/1/2007	2,775,000	525,000

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 4 – Long-Term Debt (continued)

Issue	Interest Rate	Date of Issue	Maturing Through	Original Issue Amount	Balance End of Year
Public Works Component Unit					
Special Assessment Debt					
Macomb County Water Supply System #13 (Lenox Township Section 2)	4.80 - 5.50	3/1/1994	5/1/2008	1,590,000	435,000
Macomb County Water Supply System #14 (Lenox Township Section 3	4.75 - 5.40	3/1/1997	11/1/2011	1,050,000	705,000
Macomb County Waste Water Treatment System - Armada Refunding Bonds	3.70 - 4.50	6/1/1999	11/1/2007	990,000	380,000
Lake St. Clair Clean Water Initiative Series A	4.30 - 4.90	1/1/2001	10/1/2018	9,990,000	9,240,000
Lake St. Clair Clean Water Initiative State Revolving Fund Series #1 (5186-01)	2.50	Various	10/01/2022	20,670,000	18,190,000
Lake St. Clair Clean Water Initiative Phase II, No. 2		04/01/2002	04/01/2023	5,000,000	4,695,000
Lake St. Clair Clean Water Initiative State Revolving Fund Series #2 (5186-02)	2.50	Various	04/01/2022	13,630,000	11,995,000
Lake St. Clair Clean Water Initiative State Revolving Fund Series #3 (5186-03)	2.50	Various	04/08/2022	2,640,000	2,320,000
Lake St. Clair Clean Water Initiative State Revolving Fund Series #4 (5186-04)	2.50	Various	10/01/2022	5,550,000	4,885,000
Lake St. Clair Clean Water Initiative State Revolving Fund Series #5 (5186-05)	2.50	Various	10/01/2022	855,604	895,000
Lake St. Clair Clean Water Initiative Series 2004A	4.375 - 5.150	06/01/2004	10/01/2029	5,000,000	4,880,000
Lake St. Clair Clean Water Initiative Series 2004B	4.375 - 5.150	06/01/2004	10/01/2029	14,000,000	13,660,000
Total Public Works Component Unit				102,825,604	83,155,000
Total Reporting Entity				\$ 210,460,604	\$ 171,925,000

All long-term obligations are presented as of December 31, 2005 except for the Special Assessment Debt with Governmental Commitment and Road Commission obligations, which are presented as of September 30, 2005. Assessments receivable, including interest thereon, have been pledged for the payment of the Special Assessment Debt with Governmental Commitment. The County has also pledged its full faith and credit for the payment of the principal and interest on the Special Assessment Debt with Governmental Commitment.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 4 – Long-Term Debt (continued)

The annual requirements necessary to pay principal on the obligations of the Primary Government and Component Units outstanding at year-end, exclusive of the compensated absences, general liability and workers' compensation accruals, are as follows:

Principal Maturities					
Year	Primary Government				Public Works
	Building Authority	Criminal Justice Building Authority	MI Transportation Bonds	Total	Special Assessment Debt
2006	\$ 3,370,000	\$ 605,000	495,000	\$ 4,470,000	\$ 4,775,000
2007	3,475,000	615,000	660,000	4,750,000	4,515,000
2008	3,375,000	570,000	675,000	4,620,000	4,025,000
2009	3,480,000	270,000	740,000	4,490,000	3,915,000
2010	3,445,000	865,000	760,000	5,070,000	4,065,000
2011-2015	19,600,000	3,290,000	4,490,000	27,380,000	20,850,000
2016-2020	18,910,000	-	2,700,000	21,610,000	18,960,000
2021-2025	13,380,000	-	3,000,000	16,380,000	13,715,000
2026-2030	-	-	-	-	8,335,000
	<u>\$ 69,035,000</u>	<u>\$ 6,215,000</u>	<u>\$ 13,520,000</u>	<u>\$ 88,770,000</u>	<u>\$ 83,155,000</u>

The annual requirements to pay interest on the obligations of the Primary Government and Component Units outstanding at year-end, exclusive of the compensated absences accrual, are as follows:

Interest Maturities					
Year	Primary Government				Public Works
	Building Authority	Criminal Justice Building Authority	MI Transportation Bonds	Total	Special Assessment Debt
2006	\$ 2,776,295	\$ 230,725	611,232	\$ 3,618,252	\$ 2,975,527
2007	2,726,426	208,775	588,126	3,523,327	2,821,699
2008	2,598,331	186,125	558,776	3,343,232	2,667,347
2009	2,469,579	170,600	528,618	3,168,797	2,538,007
2010	2,339,194	161,150	495,844	2,996,188	2,391,324
2011-2015	9,521,295	254,112	1,919,472	11,694,879	9,916,440
2016-2020	5,441,888	-	1,058,450	6,500,338	6,662,247
2021-2025	1,333,520	-	365,400	1,698,920	3,485,541
2026-2030	-	-	-	-	959,054
	<u>\$ 29,206,528</u>	<u>\$ 1,211,487</u>	<u>\$ 6,125,918</u>	<u>\$ 36,543,933</u>	<u>\$ 34,417,186</u>

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 4 – Long-Term Debt (continued)

New Debt Issued - On December 1, 2005, the Macomb County Building Authority (the "Authority") issued \$2,875,000 of Series 2005 Refunding bonds to advance refund \$2,675,000 of the \$3,325,000 Macomb County Building Authority Series 2000 Clemens Center bonds outstanding at December 1, 2005. The net proceeds of \$2,801,633 (after payment of \$73,367 of issuance costs and underwriters discounts) were placed in an irrevocable trust with an escrow agent and used to purchase obligations of the U. S. Treasury to provide for future debt service payments on the refunded bonds. Therefore, the refunded bonds have been removed from the accounts of the County. The remaining \$650,000 Series 2000 Clemens Center bonds are due and payable serially through May 1, 2009. The difference between the cash flows required to service the old debt and the cash flows required to service the new bonds and complete the refunding was \$201,150. The economic gain realized by the County as a result of the refunding was \$130,655, which represents the difference between the present value of the debt service payments on the old and new debt. The refunding bonds, issued in denominations of \$5,000 or multiples thereof, bear interest from 3.25% to 5.00% and are due serially through May 1, 2020. The bonds are to be repaid from rental payments received pursuant to a lease agreement executed between the Authority and the County. Bonds maturing prior to May 1, 2015 are not subject to redemption prior to maturity. Bonds maturing on or after May 1, 2015 are subject to redemption at par plus accrued interest prior to maturity, on or after May 1, 2014.

In December 2005, the Macomb County Building Authority issued \$19,380,000 of Series 2005 general obligation limited tax bonds dated December 1, 2005 for the dual purpose of constructing a District Court facility in the City of New Baltimore and also constructing a high frequency emergency radio communications system. The bonds issued have been allocated to the projects as follows: \$5,825,000 for the District Court building and \$13,555,000 for the communications system. Bonds totaling \$16,725,000, issued in denominations of \$5,000 or multiples thereof, bear interest from 3.75% to 4.50% and are due serially through November 1, 2023. The remaining \$2,655,000 term bonds bear interest at 4.50% and are due November 1, 2025. The bonds are to be repaid from rental payments to be received pursuant to a lease agreement executed between the Authority and the County. Bonds maturing prior to November 1, 2013 are not subject to redemption prior to maturity. Bonds maturing on or after November 1, 2013 may be redeemed at par plus accrued interest beginning November 1, 2012.

In prior years, the Lake St. Clair Clean Water Initiative Drain Drainage District (the "District") entered into various loan agreements with the Michigan Municipal Bond Authority, through its State Revolving Fund, to borrow up to \$43,465,000 for the purpose of defraying a portion of the cost of certain intra-county drain projects located in the cities of Eastpointe, Roseville and St. Clair Shores (the "Cities"). Funds are drawn down as construction costs are incurred and approved by the District and the Authority. During the year ended September 30, 2005, the District drew down \$119,365 and had drawn down \$43,464,969 as of September 30, 2005. The loans bear interest at a rate of 2.50% and are due serially through October 1, 2023 and were issued pursuant to the provisions of Chapter 20 of Act 40, Public Acts of Michigan, 1956, as amended. The loans are to be repaid from assessments against the Cities. These assessments are a general obligation of the Cities and are payable from City general funds or ad valorem taxes which may be levied by the Cities. The County has also pledged its full faith and credit as additional security for the payment of the principal and interest on the loans when due. The

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 4 – Long-Term Debt (concluded)

Defeased debt - In prior years, the County defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the financial statements of the County. At December 31, 2005, the amount of defeased debt outstanding but not reported as long-term debt of the County totaled \$2,675,000 and \$ 250,000 for the primary government and Public Works Component Units, respectively.

Note 5 – Interfund Receivables, Payables and Transfers

Fund	Due From Other Funds	Due To Other Funds	Due From Component Units	Due To Primary Government
General Fund	\$ 5,643,126	\$ -	\$ 4,091,953	\$ -
Special Revenue				
Emergency Management Grants	-	909,423	-	-
Friend of the Court	-	65,637	-	-
Senior Citizen Services	-	2,251	-	-
Social Welfare	-	1,742,965	-	-
	-	2,720,276	-	-
Business-type activities Funds				
Delinquent Tax Revolving	9,870,771	-	-	-
Martha T. Berry	-	954,195	-	-
	9,870,771	954,195	-	-
Fiduciary Funds				
Pension Trust	463,086	904,270	-	-
Retiree Health Fund	-	2,840,245	-	-
Agency Funds	1,312,774	9,870,771	-	-
	1,775,860	13,615,286	-	-
Component Units				
Public Works	-	-	-	2,005,190
Michigan Works !	-	-	-	2,086,763
	-	-	-	4,091,953
	<u>\$ 17,289,757</u>	<u>\$ 17,289,757</u>	<u>\$ 4,091,953</u>	<u>\$ 4,091,953</u>

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 5 – Interfund Receivables, Payables and Transfers (continued)

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 22,724,515	\$ 60,347,238
Revenue Sharing Reserve	-	14,069,515
<u>Special Revenue</u>		
Child Care	13,428,216	-
Community Services Agency	875,245	-
Emergency Management Grants	-	-
Friend of the Court	5,472,147	3,000,000
Health	12,595,893	-
Health Grants	366,924	-
Library	2,530,128	-
MSU Extension	120,839	95,839
Prosecuting Attorney Grants	602,273	35,790
Senior Citizens Services - Calendar	1,638,404	-
Sheriff Grants - Calendar	760,205	-
Social Welfare	29,990	-
Urban County Block Grant	202,169	196
Other Special Revenue	614,783	138,862
	<u>39,237,216</u>	<u>3,270,687</u>
Debt Service Fund	6,143,253	-
<u>Capital Projects Funds</u>		
Clemens center	52,000	-
District Court Building	72,795	-
E-911 Radio System	366,951	1,693,484
Martha T. Berry Renovation	2,097,899	-
Warehouse	122,469	-
General County Capital Projects Funds	13,223,956	9,031,552
	<u>15,936,070</u>	<u>10,725,036</u>
<u>Internal Service Funds</u>		
Equipment Revolving	406,635	-
<u>Business-type activities</u>		
Delinquent Tax Revolving	-	8,655,000
Community Mental Health	5,765,711	-
Martha T. Berry Medical Care Facility	5,065,185	-
Freedom Hill Park	802,655	-
	<u>11,633,551</u>	<u>8,655,000</u>
Subtotal	96,081,240	97,067,476
Imbalance caused by the timing effects of interfund transactions in funds with different year-end reporting dates	986,236	-
	<u>\$ 97,067,476</u>	<u>\$ 97,067,476</u>

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 5 – Interfund Receivables, Payables and Transfers (concluded)

The governmental capital projects funds of the County paid for certain capital improvements at the Martha T. Berry and Freedom Hill Park business-type units during the year ended December 31, 2005. The value of the reported assets totaled \$4,470,615 and is reflected under the caption Transfers - Other in the Statement of Revenues, Expenses and Changes in Fund Net Assets of the Martha T. Berry and Freedom Hill business-type units.

Interfund advances at December 31, 2005 were:

Fund	Advances Receivable	Advances Payable
General Fund	\$ 300,000	\$ -
Special Revenue - Library	30,000	-
Internal Service - Equipment Revolving	-	330,000
	<u>\$ 330,000</u>	<u>\$ 330,000</u>

Note 6 – Deferred Compensation

The County offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the assets of the plan are no longer reported as assets of the employer.

Note 7 – Employees' Retirement System

Plan Description and Provision – The County sponsors and administers the Macomb County Employees' Retirement System (the "System"), a single employer defined benefit plan covering substantially all of the County's employees. The System was established in accordance with state statutes to provide retirement benefits for the employees of the County and its several offices, boards and departments, including the County Road Commission.

At December 31, 2004 (date of the most recent actuarial valuation) the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	1,640
Terminated employees entitled to benefits but not yet receiving them	234
Active employees covered by the plan	<u>2,888</u>
Total membership	<u><u>4,762</u></u>

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 7 – Employees' Retirement System (continued)

Separate independently audited financial statements are not issued for the System; therefore, condensed financial statements as of and for the year ended December 31, 2005 are presented below:

Statement of Fiduciary Net Assets

ASSETS

Cash and investments	\$ 746,169,035
Securities lending collateral	36,706,226
Receivables	2,148,746
Due From Other Funds	<u>463,086</u>
Total assets	<u>785,487,093</u>

LIABILITIES

Accounts payable	187,410
Due to other funds	904,270
Obligations under securities lending	<u>36,706,226</u>
Total Liabilities	<u>37,797,906</u>

NET ASSETS

\$ 747,689,187

Statement of Changes In Fiduciary Net Assets

ADDITIONS

Contributions	
Employer	\$ 14,854,000
Employee	5,399,279
Investment income	<u>60,747,829</u>
Total additions	<u>81,001,108</u>

DEDUCTIONS

Benefit payments	32,554,707
Other expenses	<u>444,034</u>
Total deductions	<u>32,998,741</u>

Net increase in net assets 48,002,367

Net assets held in trust , beginning of year 699,686,820

Net assets held in trust , end of year \$ 747,689,187

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 7 – Employees' Retirement System (continued)

Retirement Benefits- The following is a summary of the benefits provided to the members of the system. All members become vested in the System after 8 years of service.

General County- The majority of employees may retire if their age plus years of service equals or exceeds 70 and they have attained a minimum age of 50. The annual retirement benefit, payable monthly for life, is computed at 2.4% of final average compensation for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 65%. Employees not covered by the provisions described above may retire at age 55 with 25 or more years of service or age 60 with 8 years of service. The annual retirement benefit, payable monthly for life, for these employees is computed at 2.2% of final average compensation for each year of service, with a maximum employer pension of 66%.

Sheriff Department- Employees may retire at any age with 25 or more years of service or age 60 with 8 years of service. The annual retirement benefit for the Sheriff and deputies, payable monthly for life, is computed at 2.64% of final average compensation multiplied by credited years of service with a maximum employer pension of 66%. The factor for the undersheriff, captains, jail administrator, command officers, corrections officers and dispatchers is 2.4% for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 66%.

Road Commission- Employees may retire at age 55 with 25 or more years of service, at age 60 with 8 years of service or regardless of age if their age plus years of service equals or exceeds 70. The annual retirement benefit, payable monthly for life, is computed at 2.4% of final average compensation multiplied for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 65%.

The System also provides death and disability benefits. If an employee leaves covered employment or dies before 8 years of credited service, accumulated employee contributions plus interest at the rate of 3.5% per year is refunded to the employee or designated beneficiary.

Basis of Accounting – The financial statements of the System are prepared using the accrual basis of accounting. Employee and employer contributions are recognized in the period that the contributions are due. Benefits and refunds are recognized when due and payable according to the terms of the plan.

Method Used to Value Investments – In accordance with GASB Statement 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans", investments are reported at fair value, as indicated by quoted market prices as of December 31, 2005.

Funding Policy – The System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The County's required contribution for 2005 was \$14,854,000. Administrative costs of the System are financed from investment earnings. General County employees contribute 2.5% or 3.5% of their annual salary to the System depending upon classification. Road Commission employees contribute 3.5% of their annual salary. Sheriff employees contribute 4.0% of their annual salary. The County contributes the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 7 – Employees' Retirement System (concluded)

Annual Pension Cost and Net Pension Obligation – During the year ended December 31, 2005, employer contributions totaled \$14,854,000, as required by the actuarial valuation of the plan as of December 31, 2003. The normal cost and actuarial accrued liability are determined using an entry age actuarial funding method. Unfunded actuarial accrued liabilities (UAAL) due to benefit and assumption changes are being amortized as a level percent of payroll over a 15 year closed period. Remaining UAAL is being amortized as a level percent of payroll over an 8-year open period. The County has historically contributed 100% of the annual required contribution. Three-year trend information regarding the County's annual pension cost, percent contribution and net pension obligation are presented below.

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	3,042,099	100	-
2004	8,577,844	100	-
2005	14,854,000	100	-

Significant actuarial assumptions used in determining the annual required contribution include (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 5.0% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 1.2% to 5.0% for various members per year, depending on service, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Securities Lending – The Macomb County Employees' Retirement System is authorized to participate in securities lending agreements with its custodian. Such transactions involve loans of securities to broker/dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future and are perceived to be invisible to the third party money managers who manage segments of the portfolio. The market for securities lending has developed to provide temporary access to a large portfolio of securities for broker/dealers who have a need to borrow specific instruments. Broker/dealers collateralize their borrowings (typically in cash) to 102% of the security value for domestic securities and 105% for foreign securities and this collateral is adjusted daily to maintain the appropriate level. The System had no credit risk exposure to borrowers at year-end since the borrowers had collateralized the securities on loan at 102%. In addition, the system is indemnified through its agreement with its custodian should borrowers fail to return securities lent or fail to pay the System income distributions by the securities' issuers while the securities are on loan. The System may not pledge or sell collateral securities, except in the case of borrower default. The System periodically reviews the custodian's practices to ensure fair distributions by the securities' issuers while the securities are on loan. The value of securities on loan at December 31, 2005 was \$35,896,496.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 8 – Post Employment Benefits

The County and its Road Commission component unit provide certain health care benefits for the retirees and beneficiaries currently receiving retirement benefits. In accordance with labor agreements and County policy, substantially all of the County's employees may become eligible for these benefits if they meet normal vesting requirements while still working for the County. Hospitalization insurance is provided through insurance companies, whose premiums are based on the benefits paid during the year. The County finances these expenditures for General County and Sheriff Department retirees through the Retiree Health Care Trust Fund of the primary government. All postemployment benefits of Road Commission retirees are accounted for in the accounts of the Road Commission Component Unit. Post-employment benefit expenditures are recognized when premiums are paid and totaled \$11,597,651 in 2005, consisting of \$9,297,651 for County retiree health care, \$2,300,000 for Road Commission retiree health care.

The Governmental Accounting Standards Board recently released Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". The disclosure requirements of the new pronouncement are very similar in nature to those set forth in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and will require postemployment benefit plans to begin measuring and reporting the actuarially determined liability associated with providing such benefits. The new pronouncement is effective for the Retiree Health Care Trust Fund for the year ending December 31, 2006.

The Governmental Accounting Standards Board also released Statement No. 45, "Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions". The new pronouncement is very similar in nature to GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers" and will require governmental entities to recognize the cost of providing retiree health care coverage over the working life of the employee rather than at the time the health care premiums are paid. The new pronouncement is effective for the County for the year ending December 31, 2007.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 8 – Post Employment Benefits (concluded)

Separate independently audited financial statements are not issued for the System; therefore, condensed financial statements as of and for the year ended December 31, 2005 are presented below:

Statement of Fiduciary Net Assets

ASSETS

Cash and investments	\$ 92,336,489
Receivables	293,035
	<hr/>
Total assets	92,629,524

LIABILITIES

Accounts payable	61,691
Due to other funds	2,840,245
	<hr/>
Total Liabilities	2,901,936

NET ASSETS	\$ 89,727,588
	<hr/> <hr/>

Statement of Changes In Fiduciary Net Assets

ADDITIONS

Contributions	\$ 9,381,967
Investment income	5,933,103
	<hr/>
Total additions	15,315,070

DEDUCTIONS

Benefit payments	9,297,651
Other expenses	84,314
	<hr/>
Total deductions	9,381,965

Net increase in net assets	5,933,105
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Net assets held in trust , beginning of year	83,794,483
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Net assets held in trust , end of year	\$ 89,727,588
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Note 9 – Contingencies and commitments

Grants – The County receives funds from various Federal and State units to finance specific activities. The final determination of revenue is subject to the acceptance of project costs by the granting agency, usually after a compliance audit. To the extent that costs are disallowed by the granting agency, County monies would be required to reimburse the grant fund. The County does not believe that any disallowed costs would be material to the financial statements.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2005

Note 10- Risk Management

The County is exposed to various risks of loss related to property damage and loss, torts, errors and omissions, employee injury (workers' compensation) and medical benefits provided to employees and retirees. The County has purchased commercial insurance for property damage coverage and certain medical benefits, but is self-insured for workers' compensation and general liability claims up to certain retention amounts, at which time reinsurance begins. The County also self-funds certain medical benefits of employees and retirees. There were no significant reductions in insurance coverage in 2005 from the prior year. Claims settled during the past three years have not exceeded the retention amounts. Liabilities include estimates of claims incurred but not reported and are calculated considering the effects of inflation, recent claim settlement trends and other economic and social factors.

Workers' Compensation – Since December 1, 1978, the County has been partially self-insured against workers' compensation claims. Under the plan, the County is obligated to pay the first \$350,000 of an individual settlement or award with commercial insurance covering claims in excess of the retention to an aggregate of \$1,000,000 annually. At December 31, 2005, the primary government has accrued an aggregate of \$1,790,146 for unresolved workers' compensation claims and claims incurred but not reported. At September 30, 2005, the Road Commission component unit has accrued an aggregate of \$388,303 for unresolved workers' compensation claims and claims incurred but not reported. Changes in the estimated liabilities for workers' compensation claims for the past two fiscal years were as follows:

	Primary Government		Road Commission	
	Year Ended December 31,		Year Ended September 30,	
	2004	2005	2004	2005
Estimated liability - beginning of year	\$ 1,882,080	\$ 1,998,875	\$ 266,269	\$ 346,775
Estimated claims incurred, including				
changes in estimates	996,177	479,807	251,440	292,968
Claims payments	(879,382)	(688,536)	(170,934)	(251,440)
Estimated liability - end of year	<u>\$ 1,998,875</u>	<u>\$ 1,790,146</u>	<u>\$ 346,775</u>	<u>\$ 388,303</u>

General Liability – The County is a defendant in various lawsuits in which plaintiffs seek damages of an indeterminable amount. Since December 1, 1977, the primary government has been partially self-insured for losses of a general liability nature. The County (excluding the Road Commission) is currently self-insured for losses of a general liability nature up to \$500,000 per claim, with commercial insurance covering claims in excess of the retention amount to an aggregate of \$10,000,000 annually. The Road Commission Component Unit is self-insured, within certain limits, for general liability claims arising prior to February 18, 1986 and subsequent to January 17, 1993 and is completely self-insured for claims arising within those dates. At September 30, 2005, the Road Commission had an accrual of \$1,620,538 for its unresolved general liability claims. The General Liability Insurance Internal Service Fund has been established to account for the self-insured aspects of this program for the primary government. At December 31, 2005, the primary government reported a balance of \$2,693,890 for its unresolved general liability claims.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (concluded)
December 31, 2005

Note 10- Risk Management (concluded)

Changes in the estimated liabilities for general liability claims for the past two fiscal years were as follows:

	Primary Government		Road Commission	
	Year Ended December 31,		Year Ended September 30,	
	2004	2005	2004	2005
Estimated liability - beginning of year	\$ 2,980,836	\$ 3,616,798	\$ 1,785,015	\$ 1,746,534
Estimated claims incurred, including changes in estimates	854,629	(610,153)	13,723	(62,100)
Claims payments	(218,667)	(322,755)	(52,204)	(63,896)
Estimated liability - end of year	<u>\$ 3,616,798</u>	<u>\$ 2,683,890</u>	<u>\$ 1,746,534</u>	<u>\$ 1,620,538</u>

Note 11 - Prior Period Adjustment

The net assets of the Road Commission Discretely Presented Component Unit were restated as of September 30, 2004 by the other auditors to correct an error in the allocation of certain construction costs in prior years. The net assets as of September 30, 2004 were decreased by \$3,531,293 as a result of this adjustment.